

Appendix H

SIGIR Testimony, June 21, 2005

This appendix reproduces the testimony submitted by Special Inspector General Stuart W. Bowen to the Committee on Government Reform Subcommittee on National Security, Emerging Threats, and International Relations of the U.S. House of Representatives on June 21, 2005.

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**STATEMENT OF STUART W. BOWEN, JR.
SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION**

BEFORE THE

**UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY, EMERGING THREATS
AND INTERNATIONAL RELATIONS**

**Tuesday, June 21, 2005
Washington, DC**

Introduction

Mr. Chairman, Ranking Member Kucinich, and members of the Committee: thank you for the opportunity to address you today on important matters regarding the United States role in the reconstruction of Iraq.

This is my first appearance before any committee of the Congress since I was appointed to help oversee Iraq reconstruction in January 2004. I look forward to a productive exchange of views with you, which I hope will raise public awareness of, and congressional attention to, the progress our Nation has made in the reconstruction and rehabilitation of Iraq and the challenges we continue to face in this important endeavor.

Background of the Office of Special Inspector General for Iraq Reconstruction

The Office of the Special Inspector General for Iraq Reconstruction (SIGIR) is the successor to the Coalition Provisional Authority Office of Inspector General (CPA-IG).

Under its enabling statute, the CPA-IG was scheduled to terminate six months after the dissolution of the Coalition Provisional Authority (CPA). The CPA passed sovereignty to Iraq on June 28, 2004, and thus the CPA-IG ostensible

termination date became December 28, 2004.

Congress recognized the need to continue special oversight of the U.S. role in Iraq's Reconstruction, and thus it amended the CPA-IG enabling statute and re-designated the CPA-IG as the Office of the Special Inspector General for Iraq Reconstruction. Without enactment of this amendment, which became law on October 29, 2004, the CPA-IG would have ceased operations at the end of 2004.

The signing of The National Defense Authorization Act for FY-2005 effected several changes, including the re-designation of CPA-IG as SIGIR. It also directed that SIGIR report jointly to the Secretaries of State and Defense, and that the SIGIR audit and investigate programs and operations funded by the Iraq Relief and Reconstruction Fund – known as the “IRRF.”

During 2004, my organization completed and published 14 audit reports covering a wide range of issues from CPA's management of the Development Fund for Iraq to contracting practices. Through most of last year, I maintained an audit staff in Baghdad of about 15 auditors and an investigative team of about five criminal investigators. My staffs in Baghdad and Arlington began to decrease during the latter part of 2004 as the CPA-IG sunset approached. Most of our employees were detailed from other federal agencies, chiefly the Department of Defense, and as their assignments expired, those agencies generally did not provide extensions or replacements as they expected our oversight would soon terminate.

With the passage of the 2005 Defense Authorization Act authorizing our continued operation, SIGIR moved quickly to hire a new cadre of auditors and criminal investigators. We have successfully reenergized our organization and will soon have 45 personnel deployed to Baghdad.

I am very proud of my staff's willingness to serve in the highly hazardous environment that is Iraq today. They are a dedicated cadre of professionals; many could be auditing or investigating in much safer and more stable environments. Instead, they have volunteered to serve our country in these challenging times, bringing their expertise to bear on this substantial and significant oversight issue.

I believe that SIGIR is the point of the spear for oversight in Iraq; we are carrying out the mission that the Congress has assigned, with vigor, speed, and efficiency. In a nutshell, SIGIR is the “Taxpayers' Watchdog” for the Iraq reconstruction program.

On-Going Activities

About two weeks ago, I returned from my eighth trip to Baghdad. I am

satisfied that our organization is now operating at optimal levels, and our auditors and investigators are performing SIGIR's mission in a way that will keep Americans informed about how their tax dollars are being spent on reconstruction. SIGIR has a substantial presence in Iraq that ensures a thorough knowledge of reconstruction operations and a forward-leaning familiarity with those who are managing the reconstruction effort.

SIGIR is making a meaningful impact on the fight against fraud, waste, and abuse. To that end, I have directed my staff to be actively engaged so that our oversight profile deters wrongful or wasteful conduct before it happens. Given the fact that SIGIR is a temporary organization, I want to ensure that the effect of our oversight is "real time," which differs somewhat from the typical Inspector General's approach. My goal is to correct inefficiencies as we find them so that we can save taxpayer dollars today, rather than observe and report about such losses at a later date.

I should add that we work closely with other oversight organizations that have jurisdiction over Iraq through a SIGIR-developed initiative: the Iraq Inspectors General Council. The Council meets at least quarterly to discuss and coordinate oversight activities in Iraq, to avoid unnecessary duplication of effort, and to raise awareness of possible gaps in oversight coverage.

Our work to promote the economic and efficient use of U.S. funds provides the Congress and the Executive Branch insight into the challenges arising within the reconstruction program. To date, we have published five Quarterly Reports to Congress, the most recent on April 30, 2005, as well as 19 audit reports, covering a variety of matters important to the management of Iraq reconstruction. Our reports are easily available to the public, in English and Arabic, on our Web site: www.sigir.mil.

It is important that our oversight provide the best usable advice and immediate guidance so that those managing the reconstruction effort can make continuous improvement. As I noted, SIGIR provides what I call "real-time auditing." We see our mission as both accomplishing longer-term analysis and providing expeditious and effective recommendations on the management of Iraq's reconstruction. Our most recent four audit reports are examples of this approach. These audit reports provided management with a review of certain operating procedures, practices, and accountability measures; upon publication of the reports, most of our recommendations had already been accepted and implemented during the course of the audit.

Some have criticized our assessments for failing to account adequately for the constricting conditions that accompany working in a war zone fraught with danger and uncertainty. I fully understand the nature of those conditions as I and my

staff experience them daily in Baghdad. However, the difficulties caused by those conditions underscore the need for fastidious accountability because the danger of fraud, waste, and abuse is potentially higher.

The Development Fund for Iraq (DFI)

You have invited me to testify today specifically on the matter of the Development Fund for Iraq (DFI) and its management by the United States. The DFI is composed of Iraqi oil revenues, unencumbered Oil-for-Food monies, and repatriated Iraqi assets accumulated since May 2003 for the rebuilding of Iraq. The DFI has accumulated \$34.5 billion as of our April 30, 2005 Report. While the U.S. transferred control over the DFI to the Iraqi Interim Government on June 28, 2004, a part of the DFI has remained under U.S. control, specifically \$3 billion as of March 2005, to allow the continued management of contracts undertaken before the 2004 transfer of governance.

Our reports about the DFI, chiefly in audit reports summarized in our January 30th and April 30th reports to the Congress, are the result of work we began while meeting our mandate as the CPA Inspector General. Our current statute focuses our oversight to the programs and operations funded by the Iraq Relief and Reconstruction Fund, specifically the \$18.4 billion provided in the FY-2004 Supplemental appropriation. Our existing authority no longer extends to funds that are subject to Iraqi governance.

Of the 19 audits we have completed to date, four dealt exclusively with programs and operations funded by the DFI. One of these, published on January 30, 2005, reported on the oversight of DFI funds provided to the ministries of the Interim Iraq Government through the national budget process.

I am submitting SIGIR Audit Report No. 05-004: Oversight of Funds Provided to Iraqi Ministries through the National Budget Process, for the record of this hearing.

This audit addressed \$8.8 billion in Iraqi funds overseen by the CPA. The number attracted a lot of attention and led to some misunderstanding. To be clear: our audit report did not say that the DFI was “lost taxpayer money,” nor did we allege or imply that U.S. officials had engaged in any fraudulent practices.

Here’s what our January 30, 2005 audit report said:

- the Coalition Provisional Authority provided less than adequate controls for approximately \$8.8 billion in DFI funds provided to Iraqi ministries through the national budget process;

- specifically, the CPA did not establish or implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner;
- and, consequently, there was no assurance that funds were used for the purposes mandated by [United Nations Security Council] Resolution 1483.

As noted, our DFI audit report did not address U.S. appropriated funds; this distinction does not lessen the importance of our oversight nor of our findings. Indeed, the CPA's management of Iraqi money was an important responsibility that, in my view, required more diligent accountability, pursuant to its assigned mandate, than we found. After many months of careful interviews and scrutiny of the documentation available, my auditors concluded that there were not adequate systems in place to ensure that the CPA knew what happened to the DFI funds after they were disbursed to the Iraqi ministries.

This posed a significant problem to the management of the DFI, which was assigned as a responsibility of the CPA by U.N. Security Council Resolution No. 1483.

This Resolution required that the DFI funds be used in a transparent manner to:

...meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq;

While acknowledging the extraordinarily challenging threat environment that confronted the CPA, as well as a number of improvements they made to budgeting and financial management for the Iraq Interim Government, we concluded nonetheless that the CPA management of Iraq's national budget process and its oversight of Iraqi funds were burdened by incomplete reporting, inefficiencies, and poor management.

In July 2004, the management in place in Iraq initially concurred with our draft audit findings. However, the Defense Support Office – Iraq (within the Department of Defense) subsequently disagreed with our findings, as did the former Administrator of the CPA, Ambassador L. Paul Bremer. In light of these disagreements, we carefully reviewed our audit findings, delayed publication of the audit report for a number of months, and responded in detail to the issues raised by those disagreeing from our conclusions.

Those who read the audit report will see the complete record of audit findings, management comments, and our responses. Those who disagreed with our comments challenged our findings and conclusions, primarily using the existence of a difficult wartime environment as a defense. Ambassador Bremer cited the lack

of a functioning Iraqi government civil service, as well as pay systems corrupted by decades of cronyism and ad Hoc fixes. In my view, the existence of these conditions should have prompted the imposition of more accountability and controls upon the interim Iraqi government structures.

None of the arguments materially moved us from our overarching conclusion that the CPA had failed to establish and implement sufficient managerial, financial, and contractual controls to ensure DFI funds were used in a transparent manner; that there was no assurance that the subject funds were used for the purposes mandated by Resolution 1483. In our response, we addressed the core complaint in the following way:

We fully recognize that the CPA operated in a dangerous working environment under difficult conditions. However, the existing administrative conditions should have underscored the need for controls over the disbursements to the Iraqi ministries. The CPA should have established controls and provided oversight over the financial management of the DFI funds precisely because there was no functioning Iraqi government, no experience within the Ministry of Finance in managing the national budget, no budget or personnel records, and the payroll systems were corrupted by cronyism and ad hoc fixes. On an individual basis, any of these conditions should have sent strong signals to financial managers that weaknesses were widespread, posed unacceptable risks and called for forceful action. Those weaknesses should have represented goals for corrective actions, not reasons for inaction.

Three other SIGIR audit reports, one released July 28, 2004 and two released on April 30, 2005, dealt with the management of the DFI. These are submitted for the record of this hearing:

- CPA-IG Audit Report No. 04-009: Coalition Provisional Authority Comptroller Cash Management Controls over the Development Fund for Iraq
- SIGIR Audit Report No. 05-006: Control of Cash Provided to South-Central Iraq
- SIGIR Audit Report No. 05-008: Administration of Contracts Funded by the Development Fund for Iraq

Generally, these audit reports cited weaknesses of controls over DFI money. Whereas the audit report of controls over DFI funds disbursed to Iraqi ministries did not raise issues of potential fraud by U.S. personnel, the audit report of Cash Provided to South-Central Iraq did find indications of fraud; we now have criminal investigations underway that will ferret out this wrongdoing. The issues raised about shortcomings in continuing management of DFI contracts in our audit report of the administration of DFI contracts are being addressed by management.

Conclusion

SIGIR is a specialized temporary oversight organization with an unusual mission. We seek to provide prompt and effective advice and recommendations to

those managing Iraq reconstruction, with the goal of working with management to save taxpayer dollars today. The Iraq reconstruction program is rapidly moving forward.

For SIGIR to make a meaningful difference, we must continue to utilize the concept of “real time” auditing. In general practice, audits usually provide detailed and documented retrospective criticism of how money could have, or should have been saved, if more efficient measures had been mandated by management. SIGIR works to close that reporting gap by pursuing a balanced approach – that is, working with management to make changes now, while retaining our required detachment as an oversight organization. I believe that this approach maintains our reportorial integrity, while promoting our collective goal – the highest and best use of U.S. resources in the Iraq reconstruction program.

As I said, I recently returned from my eighth trip to Baghdad. I am very encouraged by the response to our efforts to promote efficiency of the current Iraq reconstruction management teams: the Project and Contracting Office (PCO), the Multi-National Security Transition Command - Iraq (MNSTC-I), and at the U.S. Agency for International Development (USAID). I commend the PCO management in particular for giving me and my staff complete access to their operations and for responding to our advice and recommendations in “real time.”

To be sure, those working to manage the reconstruction of Iraq are laboring under very difficult conditions. In light of those conditions, I have told my staff that SIGIR will not hide our potential findings until publication of an audit. Rather, we will lean forward in a transparent manner to provide management with constructive oversight about Iraq reconstruction, which I hope will help pave the way for the continuous improvement of this important endeavor.

I look forward to hearing your views on our oversight and responding to your questions.
